### HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY

FINANCIAL STATEMENTS for the year ended December 31, 2004

Local Gov	vernment Typ	e vnship	∐Villag	e 🗸 Other	Local Governme	nt Name rings Area Sewage	Disposal Authori	County t Emme	
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1. We !	have com	olied w	ith the <i>Bul</i>	letin for the Au	dits of Local U	nits of Government in I	<i>Michigan</i> as revised.		
2. We a	are certifie	d publi	ic account	ants registered	to practice in	Michigan.			
We furth	er affirm th ts and rec	e follo ommer	wing. "Yes ndations	s" responses h	ave been discl	osed in the financial st	atements, including th	e notes, or	in the report of
ou must	: check the	applic	able box f	or each item b	elow.				
Yes	<b>√</b> No	1. C	Certain con	nponent units/t	funds/agencies	of the local unit are ex	cluded from the finar	cial staten	nents.
Yes	✓ No	2. T	here are a 75 of 1980	accumulated d	leficits in one	or more of this unit's u	unreserved fund bala	nces/retain	ed earnings (P
Yes	✓ No	3. T	here are mended).	instances of n	on-compliance	with the Uniform Ac	counting and Budget	ing Act (P.	.A. 2 of 1968,
Yes	<b>√</b> No	4. Tr	he local u equirement	ınit has violate ts, or an order	ed the condition	ons of either an order he Emergency Municip	r issued under the M al Loan Act.	funicipal F	ïnance Act or
Yes	<b>√</b> No	5. Ti	he local u s amended	nit holds depo d [MCL 129.91]	sits/investmen ], or P.A. 55 of	ts which do not comp 1982, as amended [M	ly with statutory requ CL 38.1132]).	irements. (	(P.A. 20 of 194
Yes	<b>√</b> No	6. T	ne local un	nit has been de	linquent in dist	ributing tax revenues t	hat were collected for	another ta	axing unit.
Yes	<b>√</b> No	7. pe	maion ber	ients (normai d	costs) in the ci	tional requirement (Ar urrent year. If the plan juirement, no contribut	is more than 100%	funded and	the overfundir
Yes	<b>√</b> No	8. Th	ne local ur ICL 129.24	nit uses credit 41).	cards and ha	s not adopted an app	olicable policy as rec	uired by P	<sup>3</sup> .A. 266 of 199
Yes	✓ No	9. Th	ne local un	it has not adop	oted an investm	nent policy as required	by P.A. 196 of 1997 (	MCL 129.9	5).
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	higan St.					City Petoskey	State MI	ZIP. 497	770
countant S	ignature	1/					Date		

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May 4, 2005

#### INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the

Harbor Springs Area Sewage Disposal Authority:

We have audited the financial statements of the Harbor Springs Area Sewage Disposal Authority as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Springs Area Sewage Disposal Authority as of December 31, 2004, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note M the Authority has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments, as of December 31, 2004.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees May 4, 2005

Our audit was conducted for the purpose of forming an opinion on the financial statements. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Smolinski & Christman, P.C.



This section of the Harbor Springs Area Sewage Disposal Authority's annual financial report presents management's discussion and analysis of the Authority's financial performance during the year ending December 31, 2004. It should be read in conjunction with the Authority's financial statements which immediately follow. As this is the first year of the implementation of GASB Statement No. 34, data from prior years is not available but will be provided in subsequent years for comparative purposes.

#### FACILITY AND OPERATIONS

The Harbor Springs Area Sewage Disposal Authority serves the southern Emmet County area in a variety of formats. The Authority is made up of four municipalities, those being the City of Harbor Springs, Little Traverse Township, Littlefield Township and the Village of Alanson. The Authority is an incorporated intramunicipality founded in 1969 under the provisions of Act 233, Michigan Public Acts of 1955, as amended. Control of the various operations of the Authority is vested in the Board of Trustees. The board consists of seven members, three from the City of Harbor Springs, two from Little Traverse Township, and one each from Littlefield Township and the Village of Alanson.

The Authority operates and maintains seventy-eight separate wastewater pumping stations, approximately sixty-five miles of gravity sewers and approximately thirty-five miles of force mains in the seven regional and local collection systems which it owns. It also operates a municipal wastewater treatment system which serves all four of the above-mentioned municipalities. The Authority also operates and maintains its water distribution system as required by the State of Michigan.

In addition, the Authority is under contract with the Springvale-Bear Creek Sewer Authority and West Traverse Township to operate and maintain their respective municipal wastewater collection systems. The Authority is also under contract with Little Traverse Township to operate and maintain the township's municipal water distribution system.

In total, the Harbor Springs Area Sewage Disposal Authority operates and maintains twelve separate systems with rate structures to provide funds for those separate systems.

#### MISSION STATEMENT AND SOURCES OF REVENUE

The Harbor Springs Area Sewage Disposal Authority was incorporated to comply with the Clean Water Act of 1968 and to help improve the water quality of the local lakes, rivers and streams.

In order to comply, the authority charges fixed and flow-related rates to the various municipalities to provide funds to adequately fund the different operations. These funds provide for operations, repair and replacement of pumps, motor, vehicles, etc. as described in the board-approved repair and replacements fund lists.

#### FINANCIAL STATEMENT OVERVIEW

The Authority's annual report includes three financial statements that provide both long-term and short-term information about the Authority's financial status. These statements are presented using the accrual basis of accounting.



#### FINANCIAL STATEMENT OVERVIEW (Continued)

The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the Authority's capital structure and assessing its liquidity and financial flexibility.

The Statement of Revenues, Expenses, and Changes in Net Assets includes all of the current year's revenues and expenses. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

#### CONDENSED FINANCIAL INFORMATION

The following table represents condensed information regarding the Authority's financial position at December 31,2004:

Current assets Restricted and designated assets Capital assets Other assets	\$ 263,141 6,751,701 8,729,920 36,399
Total assets	<u>\$15,781,161</u>
Current liabilities Liabilities payable from	\$ 71,648
restricted assets Long-term liability Long-term liability payable	329,496 50,937
from restricted assets	5,849,770
Total liabilities	<u>\$ 6,301,851</u>
Investment in capital assets Reserved for debt retirement Unreserved	\$ 8,729,920 2,137 <u>747,253</u>
Total net assets	\$ 9,479,310

The following table indicates that operating revenue exceeded operating expenses, excluding depreciation for the year. A portion of depreciation expense is funded annually by separate repair and replacement billings. However, it is anticipated that the Authority will continue to show losses in future years because a majority of the depreciation expense relates to the sewer plant facility. The

## CONDENSED FINANCIAL INFORMATION (Continued)

following information does indicate that the rates charged for operations were sufficient to cover expenses. Fine tuning of the twelve separate systems and the different rates is an annual requirement and is necessary to mandate that each municipality is paying its fair share.

Operating revenues	\$ 728,686
Operating expenses: Pumping Treatment Collection and transmission Administration and general	261,946 108,650 26,784 283,733
Total operating expenses	681,113
Operating income before depreciation	47,573
Depreciation expense	407,357
Operating loss	(359,784)
Non-operating revenues and expenses (net)	181,383
Net loss before capital contributions	(178,401)
Capital contributions	124,911
Net loss	(53,490)

## CAPITAL IMPROVEMENTS AND FUNDING REQUIREMENTS

The Authority began setting aside funds for repair and replacement purposes approximately ten years ago based on a study of future replacement needs for transportation equipment and operating equipment and parts, including pumps, meters and control panels. Revenues for this purpose are billed annually and totaled \$208,378 in 2004. The total amount available for repair and replacement at December 31, 2004 was \$570,036.

#### DEBT STRUCTURE

The Authority had three outstanding bonds issued at December 31, 2004. In 2002, a new wastewater treatment facility was financed with a bond issue totaling approximately \$5,400,000. Also, the Authority issued bonds in 2004 totaling \$710,000, the proceeds of which were used to retire existing bonds. The bond refunding was due to take advantage of lower interest rates for the remainder of the bond repayment term through 2009.



#### DEBT STRUCTURE (Continued)

The Authority's contractual agreements with its users require them to reimburse the Authority for all principal and interest costs associated with the bond issues.

## CONTACTING THE AUTHORITY'S MANAGEMENT

The purpose of this management discussion is to provide an overview of the current and prospective financial condition of the Authority's operations and physical assets. Questions concerning this report may be directed to the Authority's Manager, Robert Morris.



### HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY STATEMENT OF NET ASSETS December 31, 2004

#### ASSETS

ABBLIB		
CURRENT ASSETS: Cash and cash equivalents Certificates of deposit Accounts receivable	\$	94,982 51,468 116,691
Total current assets	_	263,141
RESTRICTED AND DESIGNATED ASSETS: Restricted assets, debt retirement Designated assets, repair and replacement		6,181,665 570,036
Total restricted and designated assets	<del></del>	6,751,701
CAPITAL ASSETS, net of accumulated depreciation		8,729,920
OTHER ASSETS, unamortized bond expenses		36,399
Total assets	\$	15,781,161
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable Accrued and withheld payroll taxes Due to Springvale-Bear Creek Sewage Disposal Authority Current portion of advances	\$	27,161 2,403 30,194 11,890
Total current liabilities		71,648
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS: Accrued interest payable Current portion of long-term debt		34,496 295,000
Total current liabilities payable from restricted assets		329,496
LONG-TERM LIABILITY, Advances, less current portion		
LONG-TERM LIABILITY PAYABLE FROM RESTRICTED ASSETS, Long-term debt, less current portion		50,937 5,849,770
Total liabilities		
NET ASSETS: Investment in capital assets Reserved for debt retirement Unreserved		6,301,851 8,729,920 2,137 747,253
Total net assets	_	9,479,310
Total liabilities and net assets	<del></del>	15,781,161
		10,701,101

The accompanying notes are a part of the financial statements.



### HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS for the year ended December 31, 2004

OPERATING REVENUES	\$ 728,686
OPERATING EXPENSES: Pumping Treatment Collection and transmission Administrative and general	261,946 108,650 26,784 283,733
Total operating expenses	681,113
Operating income before depreciation	 47,573
Depreciation expense	407,357
Operating loss	(359,784)
NON-OPERATING REVENUES (EXPENSES): Contribution by local governmental units to defray interest expense on long-term debt Repair and replacement income Interest income Miscellaneous income	185,375 208,378 6,466 13,000
Interest expense Repair and replacement expenses Amortization of bond expenses Loss on disposal of equipment	(189,169) (38,862) (1,573) (2,232)
Total non-operating revenues (expenses)	 181,383
Net loss before capital contributions	(178,401)
CAPITAL CONTRIBUTIONS	124,911
Net loss	(53,490)
NET ASSETS, BEGINNING OF YEAR	9,532,800
NET ASSETS, END OF YEAR \$	9,479,310



## HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY STATEMENT OF CASH FLOWS

for the year ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES: Fees and services		
Payments for goods and services Payments to employees	\$	721,699 (434,765) (250,920)
Net cash provided by operating activities	-	36,014
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		30,014
Additions to repair and replacement reserve		198,931
Repair and replacement expenses Other income		(38,862)
Other income		13,000
Net cash provided by noncapital financing activities	_	173,069
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Collections from local governments for hand retirement		
Contribution by local governments to defray		355,000
interest and bond fee expense, and capitalized interest		104 140
Purchase of capital assets		194,140
Retirement of advances Proceeds from long-term debt		(247,173) (11,252)
Retirement of long-term debt		804,911
Interest and bond fee expense		(1,100,000)
Bond refunding costs		(215,923)
		(30,000)
Net cash used in capital and related financing activities	_	(250,297)
CASH FLOWS FROM INVESTING ACTIVITIES,		
Interest earned		6 466
Proceeds from maturities of investments Purchase of investments		6,466 604,912
r dichase of fivestments		(1,226,416)
Net cash used in investing activities	_	(615,038)
NET DECREASE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS, Beginning of year		(656,252)
CASH AND CASH EQUIVALENTS, End of year		753,371
	\$	97,119
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Unrestricted and undesignated Restricted for debt retirement	\$	94,982
restricted for debt retirement	Ψ	2,137
Total cash and cash equivalents		<del> </del>
	\$	97,119
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	_	
	\$	(359,784)
provided by operating activities:		
Depreciation		107.057
Increase in accounts recievable		407,357 (17,876)
Decrease in accounts payable Increase in accrued and withheld payroll taxes		(6,975)
Increase in accrued and withheld payroll taxes Increase in due to Springvale-Bear Creek Sewage Disposal Authority		2,403
		10,889
Net cash provided by operating activities	<del></del>	00.01.4
No.	<u> </u>	36,014
NON CASH CAPITAL AND FINANCING ACTIVITIES: Loss on capital asset disposal	_	
and the capital asset aishords	3	2,232
i i i i i i i i i i i i i i i i i i i	==	

The accompanying notes are a part of the financial statements.



#### NOTE A - NATURE OF ENTITY:

The Harbor Springs Area Sewage Disposal Authority (the "Authority") was created as a corporate instrumentality in 1969 under provisions of Act 233, Michigan Public Acts of 1955, as amended. The local governmental units comprising the Authority include the City of Harbor Springs, the Village of Alanson, and Little Traverse and Littlefield Townships. The Authority owns and operates a sewage disposal utility system consisting of a site, a treatment plant, a collection system and a related water system. In addition, the Authority operates sewage disposal utility systems belonging to Springvale-Bear Creek Sewage Disposal Authority and West Traverse Township and a water system belonging to Little Traverse Township under terms of operating contracts.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Authority conform to accounting principles generally accepted in the United State of America as applicable to governmental units. The Authority accounts for operations that are financed and operating in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the public on a continuing basis be financed or recovered primarily through user charges. Specific accounting policies are described in the following paragraphs.

#### Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in a reporting entity. In accordance with these guidelines, there are no component units to be included in the financial statements.

#### Basis of Accounting

The accrual basis of accounting is used to account for the operations of the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989.

#### Operating Revenue

The Authority derives its revenues from charges to local units for sewage and water services. Rates are set at a level to provide for all operating costs, and to provide for an accumulation of funds for repair and replacement of plant and equipment as explained in Note E. Each member entity and contracting entity is charged based on the costs of services utilized, as some entities do not use the full range of services offered.

#### Capital Assets

Property and equipment are recorded at cost. The plant and systems are being depreciated under the straight-line method over their estimated useful lives of 40 years; the other fixed assets are being depreciated over their shorter estimated useful lives using the straight-line method.



## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

#### Cash and Cash Equivalents

The Authority considered its deposits and restated deposits paid investments held with maturities of three months or less to be cash equivalents.

#### Restricted and Designated Assets

Assets restricted by provisions of bond resolutions for the payment of bond interest are recorded as restricted assets while those designated by the Authority's Board of Trustees for repair and replacement are recorded as designated assets. Any investment earnings of the restricted or designated funds are recorded as income and added to the fund. Disbursements are made only for the restricted or designated purposes.

#### Contributions for Bond Costs

Amounts receivable from participating local governmental units to pay the outstanding bond principal are recorded as contracts receivable and capital contributions. Payments are due at designated dates and amounts over the lives of the bonds and are to be applied against the receivable when received.

In addition to the principal payments, governmental units are to provide for the interest expense and bond costs incurred on long-term debt. Amounts to defray such costs are recorded as other income. Any accrued interest payable in bonds is also recorded as an asset due from the governmental units.

#### Other Assets

Bond expenses consist of expenses related to the 2004 Refunding Bonds issued. The expenses will be amortized beginning in 2005 over the life of the bonds.

#### <u>Use of Estimates</u>

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.



#### NOTE C - CREDIT RISK:

The following is a summary of the Authority's deposits (including cash, cash equivalents and certificates of deposit) at December 31, 2004:

Carrying amount on financial statement	<u>\$718,471</u>
Bank balance Insured by Federal Deposit Insurance Corporation	\$760,241 _100,000
Uninsured and uncollateralized balance	<u>\$660,</u> 241

Michigan law authorizes the Authority to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit and savings accounts which are insured with the applicable federal agency, commercial paper within the three highest rate classifications by at least two rating services, U.S. or agency repurchase agreements, bankers acceptance of U.S. banks and mutual funds. The Authority's investments during 2004 were in accordance with these requirements.

#### NOTE D - RESTRICTED ASSETS:

Under terms of contractual agreements between the Authority, the City of Harbor Springs, Village of Alanson, and Littlefield and Little Traverse Townships executed in conjunction with the sale of various bonds, the participating governmental units have agreed to pay the Authority all debt service costs associated with the bond issues and the bonds are payable solely from such payments. These payments are required annually at amounts equal to the bond interest, principal and service charges payable within the ensuing year. The following is a summary of percentages due from each governmental unit for the bond issues outstanding at December 31, 2004:

	Series 2004, Project No. 1 <u>Refunding</u>	Series 2004, Project No. 2 <u>Refunding</u>	Series 2002
Littlefield Township Little Traverse Township Village of Alanson City of Harbor Springs	36.16 - 63.84	53.17 20.24 26.59	23.29 27.06 10.37 39.28
Total	<u>100.00</u>	100.00	100.00



## NOTE D - RESTRICTED ASSETS (Continued):

Under the terms of the agreements, the City, Village and Townships have pledged their full faith and credit for payment of their respective share of debt service costs. In addition, each governmental unit has agreed to include a sufficient amount in its annual property tax levy to make the required payments.

The following is a summary of assets that are restricted for debt retirement at December 31, 2004:

Cash Accrued interest receivable Due from local governmental	\$ 2,137 34,758
units for bond retirement	6,144,770
Total	\$6 181 665

#### NOTE E - DESIGNATED ASSETS:

The Authority's repair and replacement reserve was established to accumulate funds for replacement of plant and equipment. The fund is to be used for plant repair or replacements costing more than an amount established by formula, approximately \$88,000 at December 31, 2004, and equipment repair or replacements costing more than \$10,000 or for specific expenses as designated by the Board of Trustees.

Annual operating revenues specified for repair and replacement and earnings from reserve investments are to be added to the reserve until it accumulates to five percent of plant cost, exclusive of land cost. After that only earnings from reserve investments are to be added to the reserve.

The Authority has also designated a cash account, which consists of proceeds from timber sales and other miscellaneous proceeds, for specific capital items and expenses as determined by the Board of Trustees.

The Authority's cash and certificates of deposit balances are designated as follows as of December 31, 2004:

Repair and replacement Designated timber funds	\$521,183 <u>48,853</u>
Total	<u>\$570,036</u>



#### NOTE F - CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2004, is as follows:

	_	rlance y 1, 2004	<u>Add</u>	itions	<u>Dele</u>	etions		alance er 31, 2004
Land Sewage utility plant and	\$	356,372	\$	-	\$	-	\$	356,372
collection system Waterwell and distribution system	-	988,228		9,595		-	13	3,997,823
Garage and other buildings		195,666		-		-		195,666
Transportation, shop and	97,870		-		-		97,870	
office equipment		329,306	1	<u>1,154</u>		<u>4,483</u>		335,977
Total	14,9	967,442	2	0,749	•	4,483	14	,983,708
Accumulated depreciation	5,8	348,682	_40	7,357		2,251	6	,253,788
Capital assets, net	<u>\$ 9,1</u>	18,760	<u>\$(386</u>	<u>6,608</u> )	\$ 2	2,232	<u>\$ 8</u>	<u>,729,920</u>

#### NOTE G - LONG-TERM DEBT:

The following is a summary of long-term debt transactions for the year ended December 31, 2004:

Series 2002 Wastewater	Balance January 1, 2004	Additions	Retirements	Balance <u>December 31, 2004</u>
Treatment Facility Bonds Series 1989 Improvement Bonds Series 1988 Refunding Bonds Series 2004 Project No. 1	\$5,569,859 405,000 465,000	\$ 94,911 - -	\$ 230,000 405,000 465,000	\$5,434,770 - -
Refunding Bonds Series 2004 Project No. 2	-	370,000	-	370,000
Refunding Bonds		340,000		340,000
	<u>\$6,439,859</u>	\$804,911	\$1,100,000	<u>\$6,144,770</u>

Long-term debt consists of the following at December 31, 2004:

\$5,664,770 Series 2002 Wastewater Treatment
Facility Bonds due in annual installments
of \$225,000 to \$360,000 plus interest at
2.50 percent; maturing in April, 2023 \$5,434,770

\$370,000 Series 2004 Project No. 1 Refunding Bonds due in annual installments of \$70,000 to \$80,000 plus interest of 3.125 to 3.750 percent; maturing in September, 2009



370,000

## NOTE G - LONG-TERM DEBT (Continued):

\$340,000 Series 2004 Project No. 2 Refunding
Bonds due in annual installments of \$85,000
plus interest of 3.125 to 3.750 percent; maturing
in January, 2009

\$340,000

6,144,770

295,000

Total <u>\$5,849,770</u>

The annual requirements to amortize all debt outstanding as of December 31, 2004, including interest payments of \$1,462,769 are as follows:

Year Ending <u>December 31,</u>	
2005 2006 2007 2008 2009 2010 - 2014 2015 - 2019 2020 - 2023	\$ 447,838 532,672 536,953 530,732 528,838 1,797,972 1,798,096 _1,434,438
Total	\$7,607,539

Payment of bond principal, interest and service costs are provided under the terms of contractual agreements with local governmental units as explained in Note D.

#### NOTE H - ADVANCES:

Under terms of agreements between the Authority, the Village of Alanson and Littlefield Township, the participating governmental units made a long-term advance in December, 1996 to the Authority's repair/replacement reserve. The advances are to be repaid by the Authority over terms ranging from 10 to 15 years.

#### NOTE I - UNRESTRICTED NET ASSETS:

The Authority, through Board action, has designated the use of December 31,2004 unrestricted net assets as follows:

Designated for future repair and replacement Designated for future capital items and expenses	\$521,185 <u>48,851</u>
Total designated net assets	570,036
Undesignated and unallocated	<u> 177,217</u>
Total unrestricted net assets	<u>\$747,253</u>



#### NOTE J - PRIOR PERIOD ADJUSTMENTS:

The Authority had a receivable of \$305,141 at December 31, 2003 for bond proceeds still available for the construction of the new plant. A change in financial statement presentation is being made to report the unused bond proceeds as a reduction of net assets rather than an asset, as follows:

Bond proceeds receivable December 31, 2003, as previously presented Correction	\$305,141 _(305,141)
Bond proceeds receivable December 31, 2003, as corrected	\$ <u>        0</u>
Net assets December 31, 2003, as previously presented Correction	\$9,837,941 (305,141)
Net assets December 31, 2003, as corrected	<u>\$9,532,800</u>

The correction had no effect on net loss as previously presented.

#### NOTE K - PENSION PLAN:

The Authority sponsors the Harbor Springs Area Sewage Disposal Authority Money Purchase Pension Plan which covers all regular full-time and part-time employees. The plan is administered by the International City Management Association Retirement Corporation. Employees are eligible to participate after one year of service and upon reaching the age of 21. The Authority is required to contribute 8 percent of eligible compensation to the plan. Employees may also contribute to their individual accounts. Employer contributions and earnings of each individual employee fully vest after five years of credited service. Contributions and earnings not vested with employees who leave employment are used to offset the future costs of the plan. The Authority's contributions to the plan for the year ended December 31, 2004 was \$15,405.

#### NOTE L - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Authority belongs to the Michigan Municipal Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Authority pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for 100 percent of its claims.



## NOTE L - RISK MANAGEMENT (Continued):

The Authority also belongs to the Michigan Municipal Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and worker's compensation insurance program for various municipalities throughout the state. The Authority pays an annual premium for its worker's compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event.

The Authority also carries commercial insurance for all other risks of loss including property and employee health insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## NOTE M - IMPLEMENTATION OF GASB STATEMENT NO. 34:

The Authority has implemented the standards required by GASB Statement No. 34, for the year ended December 31, 2004. All required statements and disclosures have been included in the financial statements.

#### NOTE N - DEFEASED DEBT:

On October 7, 2004, the Authority issued \$710,000 in general obligation bonds, to advance refund series 1988 and 1989 revenue bonds totaling \$680,000. The general obligation bonds were issued at par value. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. Government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the revenue bonds are called on January 1, 2005 and March 1, 2005. The advance refunding met the requirements of an in-substance debt defeasance and the revenue bonds were removed from the Authority's financial statements.

As a result of the advance refunding, the Authority reduced its total debt service requirements by approximately \$42,000.



## HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF OPERATING INCOME BEFORE DEPRECIATION for the year ended December 31, 2004

	I A	orings Area Sewage Disposal Authority reatment	Spri S Di	Harbor ings Area ewage isposal em West	Spr S D	Harbor ings Areo ewage isposal stem East	ſ	Springs Arec Sewage Disposal Authority Vater System		Little Traverse Township Sewage Collection ystem West	To S Co	Little Traverse ownship Sewage ollection stem East
Operating revenues	\$	209,662	\$	74,090	\$	75,824	- <u>-</u>	24,26		<del></del>		
Pumping expenses:					•	70,024	Ψ	24,20	3 \$	49,497	\$	32,524
Labor				0.015								
Power		37,008		9,915		5,142		4,34	3	_		_
Maintenance				14,024		13,108		7,050	)	3,586		1,703
Supplies and		17,531		3,613		6,260		1,95		1,254		
expenses								-,		1,204		5,379
0		19,953		1,038		3,384		735	,	2,199		2,247
Total		74,492		28,590	·	27,894	·	14,086		7,039		9,329
Treatment expenses:										7,000		3,329
Labor		70.000										
Power		70,098		-		-		_			•	
Maintenance		-		-		196				-		-
Mannenance		37,652		704				-		-		-
Total		107,750					•			-		-
		107,750		704		196		-		-		
Collection and												
transmission expenses												
Labor												
Maintenance		-		-		-				5,449		3,563
of mains		1.005								0,110		3,303
		1,235		•		•		-		170		435
Total		1,235		_		•				5,619		
Administrative and								•		3,619		3,998
Administrative and												
general expenses:												
Salaries		18,724		9,098		8,475		0.001				
Office supplies				0,000		0,473		2,024		5,660		4,131
and expenses		4,984		1,920		0.055						
Outside services		4,506		1,262		2,055		504		1,364		1,023
Insurance		2,944				1,651		423		1,283		832
Employee benefits		18,626		3,492		3,343		631		2,614		1,562
Vacation, holidays		10,020		6,376		7,810		1,903		5,207		3,883
and sick leave		0.005								-,		3,003
Payroll taxes		9,265		3,691		3,666		880		2,408		1,841
Transportation		8,375		1,948		1,420		637		1,211		
expense								00,		1,2,11		855
Maintenance		3,908		1,277		1,587		391		1,049		
Miscellaneous		900		347		411		97				792
Miscendineous	_	87		23		31		8		280 19		203
Total		72,319		29,434		20.440						15
Tetal - ··	<del></del>					30,449		7,498		21,095	1	15, 137
Total operating												
expenses	2	255,796	5	8,728		58,539		21,584		00 750	_	
Operating income								21,004		33,753	2	28,464
(loss) before												
expense allocation												
expense difocation	(	(46, 134)	1	5,362	j	17,285		2,679		15 744		4.000
Springvale - Bear Creek								4,070		15,744		4,060
surcharge												
suchuige		18,147		-		-		_		_		
Operating income					*							
(loss) before												-
depreciation	\$ (2	27,987) \$		5,362 \$								
	- ₩ (.					7,285 \$		2,679				1,060

 Littlefield Township Sewage Collection System	C	Alanson Sewage ollection System	C	Harbor Springs ollection System	Be S D	oringvale ear Creek Sewage Disposal System	T S L	West Traverse ownship Sewage Disposal System	Т	Little 'raverse Water System		Total
\$ 45,486	\$	36,091	\$	39,557	\$	98,885	\$	2,431	\$	40,376	\$	728,686
5,297 8,317		- 4,953 8,087		4,200 1,265		14,189 12,419 6,947		672 496 64		6,740 12,110 4,067		41,004 115,954 64,739
 1,754		1,410		1,063		3,626		377		2,463		40,249
15,368		14,450		6,528		37,181	· -	1,609		25,380	-	261,946
 - - - -		- - -		- - -		- - -		-		- - - -		70,098 196 38,356
5,216		4,646 -		4,570 -		- 1,500		-		-		23,444
 5,216		4,646		4,570		1,500						3,340 26,784
4,470 1,082 963		3,996 968 1,373		4,271 1,017 790		12,651 2,729 2,211		1,150 139 123		4,540 982 793		79,190 18,767 16,210
1,907 4,150		1,761 3,689		2,010 3,916		4,260 10,364		190 521		1,563 3,731		26,277 70,176
1,951 1,144		1,727 1,010		1,825 943		4,769 2,787		232 177		1,705 1,140		33,960 21,647
 671 220 16		576 197 14		787 211 14		1,703 542 41		95 24 -		759 196 15		13,595 3,628 283
 16,574		15,311		15,784		42,057		2,65,1		15,424		283,733
 37,158		34,407		26,882		80,738		4,260	4	10,804		681,113
8,328		1,684		12,675		18,147		(1,829)		(428)		47,573
 -			·		(	18,147)		-		-		-
\$  8,328	\$	1,684 \$		12,675	5	<del>-</del>	\$	(1,829)	\$	(428)	\$	47,573



# HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULES OF REPAIR AND REPLACEMENT RESERVES for the years ended December 31, 2004 and 2003

	System Repair and Replacement			Vehicle placement		Total
Balance, December 31, 2002	\$	228,820	\$	58,106	- <del></del>	286,926
Additions:  Monthly billings Interest income Insurance proceeds		110,442 6,773		48,779 631 18,127		159,221 7,404 18,127
Total additions	-	117,215		67,537		184,752
Reductions: Repairs Vehicle purchases Repayment of long-term advances		2,506 - 15,048		92,079		2,506 92,079 15,048
Total reductions	<del> </del>	17,554	-	92,079		109,633
Balance, December 31, 2003		328,481		33,564		362,045
Additions: Monthly billings Direct billings Interest income		115,358 4,000 3,683		89,020 - 987		204,378 4,000 4,670
Total additions		123,041		90,007		213,048
Reductions: Repairs Repayment of long-term advances		38,862 15,048		-		38,862 15,048
Total reductions		53,910		_		53,910
Balance, December 31, 2004	\$	397,612	\$	123,571	\$	521,183



# HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULES OF SYSTEM REPAIR AND REPLACEMENT RESERVE for the years ended December 31, 2004 and 2003

		Harbor Springs Area Sewage Disposal Authority Treatment		Harbor Springs Area Sewage Disposal System West		Harbor Springs Area Sewage Disposal System East		Harbor Springs Area Sewage Disposal Authority Water System		Little Traverse Township Sewage Collection System West	
Balance, December 31, 2002	\$	58,903	\$	28,287	\$	16,164	\$	2,065	·	50 282	
Additions: Monthly billings Interest income		26,550 1,774		9,204 799		26,760 568		600	*	11,100	
Total additions		28,324		10,003		27,328		658		12,431	
Reductions: Repayment of long-term advances Repairs		-		- -		15,048		<u>-</u>		-	
Balance, December 31, 2003		87,227		38,290		28,444		2,723		62,713	
Additions: Monthly billings Direct billings		31,500		9,204		26,760		600		11,100	
Interest income	-	1,070		315		360		32		634	
Total additions		32,570		9,519		27,120		632		11.734	
Reductions: Repairs Repayment of long-term advances				13,595		- 15,048				12,949	
Total reductions		-		13,595		15,048				12,949	
Balance, December 31, 2004	\$	119,797	\$	34,214	\$	40,516	<u></u>	3,355	\$	61,498	

	Little Traverse Township Sewage Collection System East	Littlefield Township Sewage Collection System		Alanson Sewage Collection System	Harbor Springs Collection System		Total
\$	16,368	\$ 12,285	\$	11,103	\$ 33,363	\$	228,820
******	13,632 605	 7,500 388		7,500 362	7,596 888		110,442 6,773
	14,237	7,888		7,862	8,484		117,215
	-	 1,253		1,253	 - -		15,048 2,506
	30,605	18,920		17,712	41,847	-	328,481
	13,632 - 396	7,500 2,000 215		7,500 2,000 202	7,562 - 459		115,358 4,000 3,683
	14,028	9,715		9,702	8,021		123,041
	-	 6,159		6,159	- -		38,862 15,048
_	-	 6,159		6,159	 -		53,910
\$	44,633	\$ 22,476	\$	21,255	\$ 49,868	\$	397,612



## HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF INDEBTEDNESS

December 31, 2004

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity April 1	Outstanding December 31,2004	Total Interest Payable
2002 Wastewater Treatment Facility						
Bonds	April 1, 2002	\$ 5,664,770	2.50	2005	225,000	133,314
			2.50	2006	230,000	127,369
			2.50	2007	240,000	121,494
			2.50	2008	245,000	115,432
			2.50	2009	250,000	109,244
			2.50	2010	255,000	102,932
			2.50	2011	265,000	96,432
			2.50	2012	270,000	89,744
			2.50	2013	275,000	82,932
			2.50	2014	285,000	75,932
			2.50	2015	290,000	68,744
			2.50	2016	300,000	61,369
			2.50	2017	305,000	53,807
			2.50	2018	315,000	46,057
			2.50	2019	320,000	38,119
			2.50	2020	325,000	30,057
			2.50	2021	335,000	21,807
			2.50	2022	345,000	13,307
			2.50	2023	359,770	4,497
					\$ 5,434,770	\$ 1,392,589

NOTE: Bonds are subject to redemption at par prior to maturity at the option of the Authority, in the amount of \$5,000 or any multiple of \$5,000.



### HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF INDEBTEDNESS December 31, 2004

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity September 1	De	utstanding ecember 31, 2004	Total Interest Payable
Revenue Bonds, Project No. 1 Refunding Bonds, Series 2004	Oct. 7, 2004	\$ 370,000	3.125 3.125 3.125 3.500 3.750	2005 2006 2007 2008 2009	\$	70,000 70,000 75,000 75,000 80,000	\$ 11,109 10,156 7,969 5,625 3,000
					\$	370,000	\$ 37,859

NOTE: The prior bond issue, Revenue Bonds, Series 1989, was refinanced during 2004 with the Project No. 1 Refunding Bonds, Series 2004. These bonds are not subject to redemption prior to maturity.



## HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF INDEBTEDNESS

December 31, 2004

	Date of Issue			Date of Maturity January 1	Outstanding December 31, 2004	Total Interest Payable	
Revenue Bonds, Project No. 2 Refunding Bonds, Series 2004	Oct. 7, 2004	\$ 340,000	3.125 3.125 3.125 3.500 3.750	2005 2006 2007 2008 2009	\$ - 85,000 85,000 85,000 85,000	\$ 8,415 10,147 7,490 4,675 1,594	
					\$ 340,000	\$ 32,321	

NOTE: The prior bond issue, Revenue Bonds Project No. 2 Refunding Bonds, Series 1988, was refinanced during 2004 with the Project No. 2 Refunding Bonds, Series 2004. These bonds are not subject to redemption prior to maturity.



## HARBOR SPRINGS AREA SEWAGE DISPOSAL AUTHORITY SCHEDULE OF ADVANCES

December 31, 2004

	Orignal Amount		Repayment Term	Interest Rate	Year Due	Principal Due		Interest Due	
Littlefield Township	\$	92,819	15 Years	5.50%	2005 2006 2007 2008 2009 2010 2011	\$	6,345 6,702 7,080 7,481 7,902 8,348 8,065	\$	2,697 2,340 1,962 1,561 1,140 694 223
Village of Alanson	\$	46,118	10 Years	5.50%	2005 2006	\$ \$	51,923 5,545 5,359	\$ \$	10,617 461 148
						\$	10,904	\$	609



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Adam B. Caron, C.P.A.

Troy A. Slater, C.P.A.

June 2, 2005

To the Board of Trustees of the

Harbor Springs Area Sewage Disposal Authority:

We have completed our audit of the financial statements of the Harbor Springs Area Sewage Disposal Authority for the year ended December 31, 2004, and have issued our report thereon dated May 4, 2005. In planning and performing our audit, of the financial statements, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. During our audit, we became aware of the following matters that represent an opportunity for strengthening operating controls and efficiencies.

The following comments were included in last year's letter and are being repeated:

#### Accounting Software

The Authority is currently not using the payroll and accounts receivable modules of its accounting software. We recommend that the Authority consider upgrading its accounting software so payroll and accounts receivable can be used to make the accounting process more efficient. An upgraded software would also most likely include other enhancements that the Authority would find useful in the processing and reporting of its financial information. We would be happy to assist the Authority in the research and implementation of new accounting software.

#### Accounting Procedures and Reporting

The Authority's bookkeeper has the responsibilities of maintaining the checking account, including preparation of bank reconciliations, and mailing of checks. We would recommend that the Authority implement additional procedures to strengthen internal controls. The Authority's manager would review all unopened bank statements before the bookkeeper has access to the statements. He would also review the bank reconciliation on a surprise basis. The implementation of these procedures would help to protect the Authority against any unauthorized disbursements.

#### <u>Inventory</u>

The Authority does not record an inventory of spare parts and supplies in its accounting records. We would recommend that the Authority consider implementing an inventory system which would strengthen control over inventory and improve the accuracy of the financial statements.

Harbor Springs Area Sewage Disposal Authority June 2, 2005 Page 2

The following comment is a result of this year's audit:

#### Cash Disbursements

During our audit of the cash accounts, we noted that check numbers were being used more than once. Check numbers should not be duplicated. We recommend that you use prenumbered checks.

We would like to acknowledge the courtesy and assistance extended to us by the Authority's personnel during our audit. Should you have any questions with respect to the above comments, we would be pleased to discuss them with you at your convenience.

Very truly yours,

Smolinski & Christman, P.C.

Smolinski & Christman, P.C.

